

An introduction to Beyond Budgeting and Ambition to Action
- business agility in practice

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Equinor

Chairman-Beyond Budgeting Roundtable



Outline

- The case for change - what is the problem?
- Beyond Budgeting
 - The model
 - Cases
- The Equinor model - Ambition to Action

The illusion of control

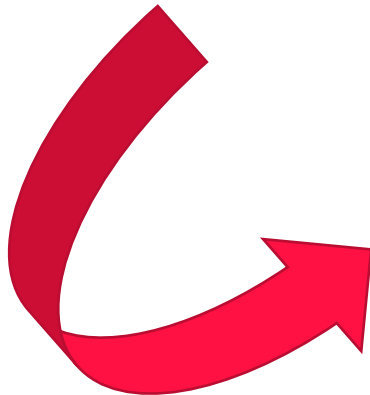
The definition

“The power to influence or direct people's behaviour or the course of events”



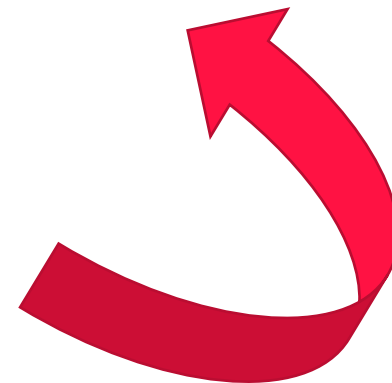
The grand illusion

- People can and must be managed
- The future is predictable and manageable

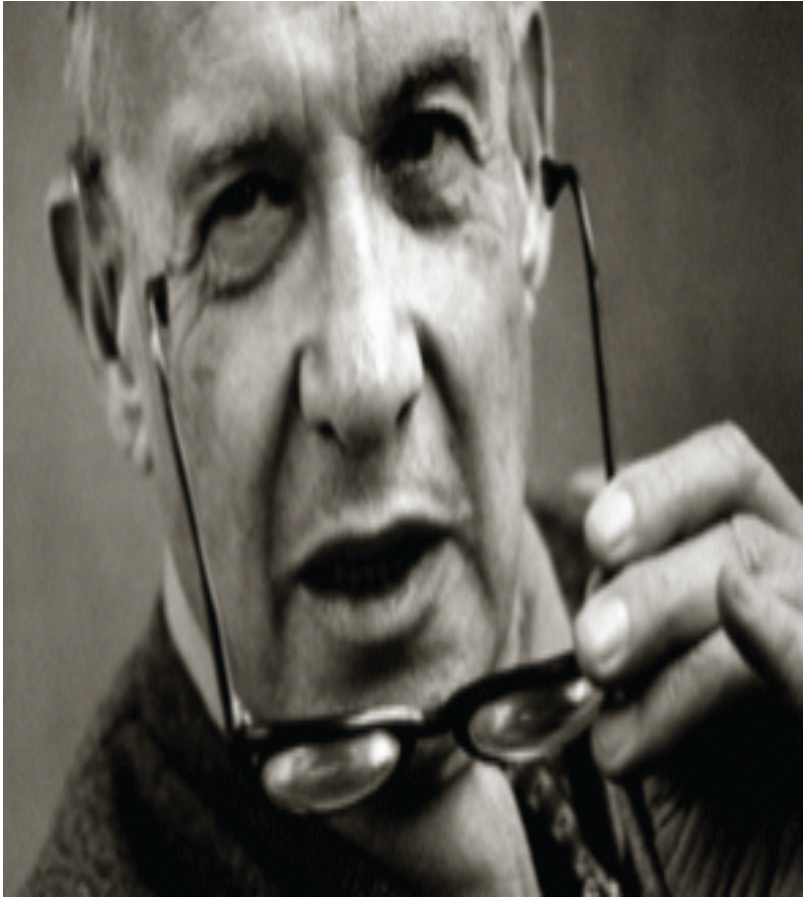


In business terms

- Controlling people
- Controlling the future



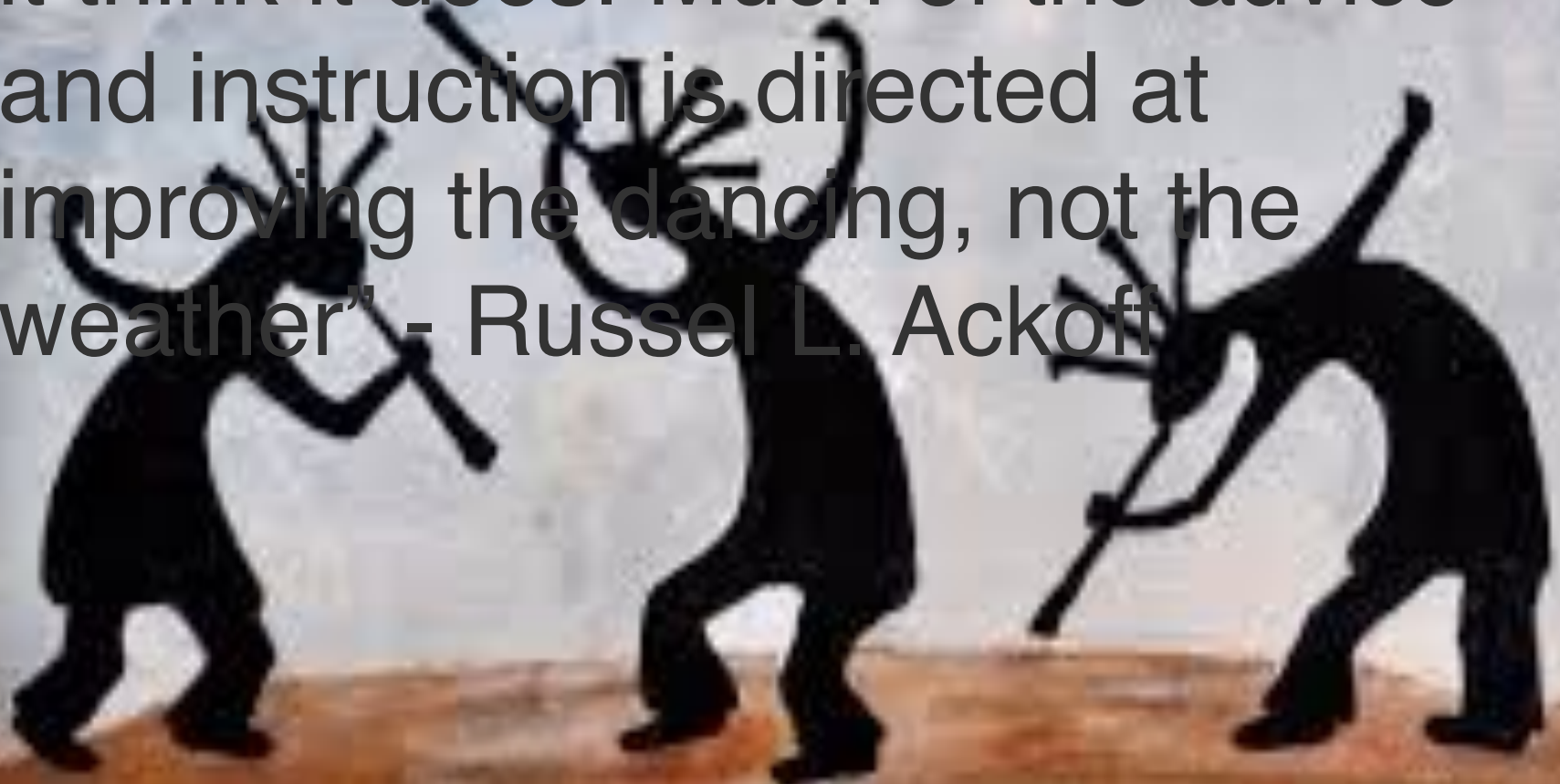




«Most of what we call management is about making it difficult for people to do their job»

Peter Drucker

“Most corporate planning is like a ritual rain dance. It has no effect on the weather, but those who engage in it think it does. Much of the advice and instruction is directed at improving the dancing, not the weather” - Russel L. Ackoff





The innovation paradox

Technology innovation

- a very crowded place

Leading edge!

Unique!

Forefront!

Management innovation

- not yet a crowded place

Great!

Scary!

Same purpose: Better performance!

Budget problems



Very time consuming



Assumptions quickly outdated



Stimulates unethical behaviours



Creates illusions of control



Decisions made too early and often too high up



Can prevent value adding activities



Not just a ceiling for cost, also a floor



Often a bad yardstick for evaluating performance



Conflicting purposes

Irritating itches - or symptoms of a bigger problem?

Managing traffic performance - one alternative



Who is in control?

Based on which
information?

Managing traffic performance - another alternative

Who is in control?

Based on which information?



Which is most **efficient**?
Which is most **difficult**?



In which are **values** most important?

From *managing* performance.....

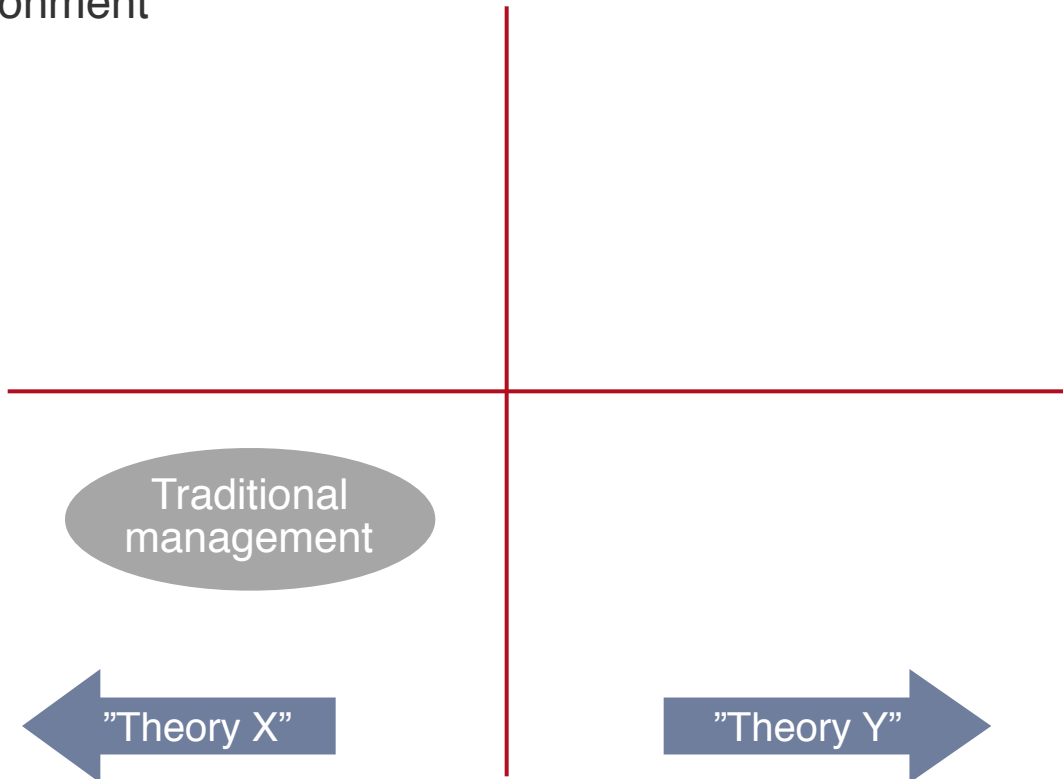


.....to *enabling* performance

The world has changed

– what about the way we lead and manage?

Business environment



Traditional management

"Theory X"

"Theory Y"

People

We must change both processes and leadership

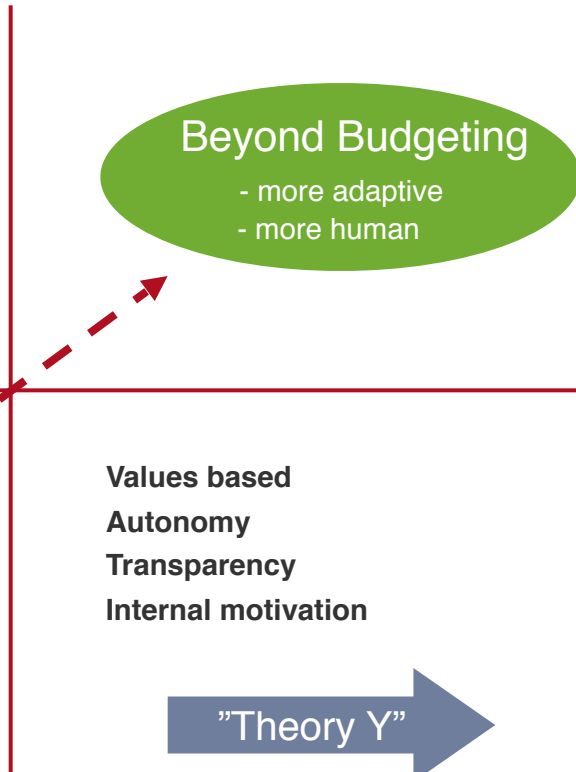
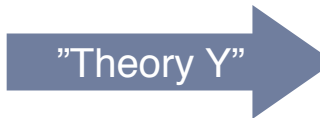
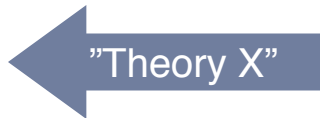
Processes



No traditional detailed budgets
Relative and directional goals
Dynamic planning, forecasting and resource allocation
Holistic performance evaluation



Rigid, detailed and annual
Rules-based micro management
Centralised command and control
Secrecy, sticks and carrots



Leadership

Companies on the journey



Beyond Budgeting

- enabling business agility

Leadership principles

- 1. Purpose** - Engage and inspire people around bold and noble causes; **not** around short-term financial targets
- 2. Values** - Govern through shared values and sound judgement; **not** through detailed rules and regulations
- 3. Transparency** - Make information open for self-regulation, innovation, learning and control; **don't** restrict it
- 4. Organisation** – Cultivate a strong sense of belonging and organise around accountable teams; **avoid** hierarchical control and bureaucracy
- 5. Autonomy** - Trust people with freedom to act; **don't** punish everyone if someone should abuse it
- 6. Customers** - Connect everyone's work with customer needs; **avoid** conflicts of interest

Management processes

- 7. Rhythm** - Organise management processes dynamically around business rhythms and events; **not** around the calendar year only
- 8. Targets** - Set directional, ambitious and relative goals; **avoid** fixed and cascaded targets
- 9. Plans and forecasts** - Make planning and forecasting lean and unbiased processes; **not** rigid and political exercises
- 10. Resource allocation** - Foster a cost conscious mind-set and make resources available as needed; **not** through detailed annual budget allocations
- 11. Performance evaluation** - Evaluate performance holistically and with peer feedback for learning and development; **not** based on measurement only and **not** for rewards only
- 12. Rewards** - Reward shared success against competition; **not** against fixed performance contracts

Equinor in brief

- Turnover approx. 80 bn. USD
- 20.000 employees in 33 countries
- World's largest operator in waters deeper than 100 metres
- Second largest gas exporter to Europe
- Large offshore wind player
- Listed in New York and Oslo



Getting started - solving the budget conflict

The budget purposes

- Target
- Forecast
- Resource allocation



1. Separate



Target
What we want to happen



Forecast
What we think will happen



Resource allocation
What it takes to make it happen

2. Improve

- Inspiring & stretching
- VUCA robust

- Unbiased - expected outcome
- Limited detail

- Frames and ratios
- Mandates, decision gates and decision criteria
- Trend monitoring

Same number - conflicting purposes

Different numbers

Event driven - not calendar driven

Ambition to Action - purpose and process

- Translating strategy and managing risk
- Securing agility - room to act and perform
- Activating values and leadership principles



Shaping the future of energy

STRATEGIC OBJECTIVES

1. Safety, security and sustainability

Where are we going?

2. People and organization

A world-class and high-performing organization

3. Operations

A leader of energy industry transformation

4. Market

A flexible and scalable energy portfolio

5. Finance

A cash-generating, profitable and competitive company

RISKS

Risks: accident
Risks: environmental
Operational
Regulation, government activities or climate

What are the risks?

Workforce capabilities
Complexity
Business integrity

Production
Energy transition
Digitalization and efficiency

Resource exploration
Energy transition
Capital
Marketplace value

Robustness and financial flexibility
Unstable regulatory and fiscal framework
Competitive cost level

ACTIONS

Enhance safety initiatives to accommodate a rapid change in demand
Continue to implement 2020 safety roadmap until we are confident that we have a strong safety culture
Integrate assessment scoring measures to support safety, environmental, and security

Strengthen people development (skills, knowledge, and talent)
Invest in digital transformation (data, talent, and culture)

Optimize production to maximize value
Leverage digitalization to improve operations and reduce costs
Leverage digitalization to improve operations and reduce costs

Attract, retain and drill high quality personnel
Integrate discipline and technology to drive through attractive E&P opportunities

Ensure sufficient financial capacity
Secure trust, support and a strong reputation among key stakeholders (stakeholders)
ESG 30-50

INDICATORS

27 Safety Incidents Frequency (SIF) (Serious HSE Incidents)
28 Total Operational Energy Efficiency (TOEE)
29 CO2 Intensity, system intensity and fully
27 Un-upset outage

Employee Engagement
People Development

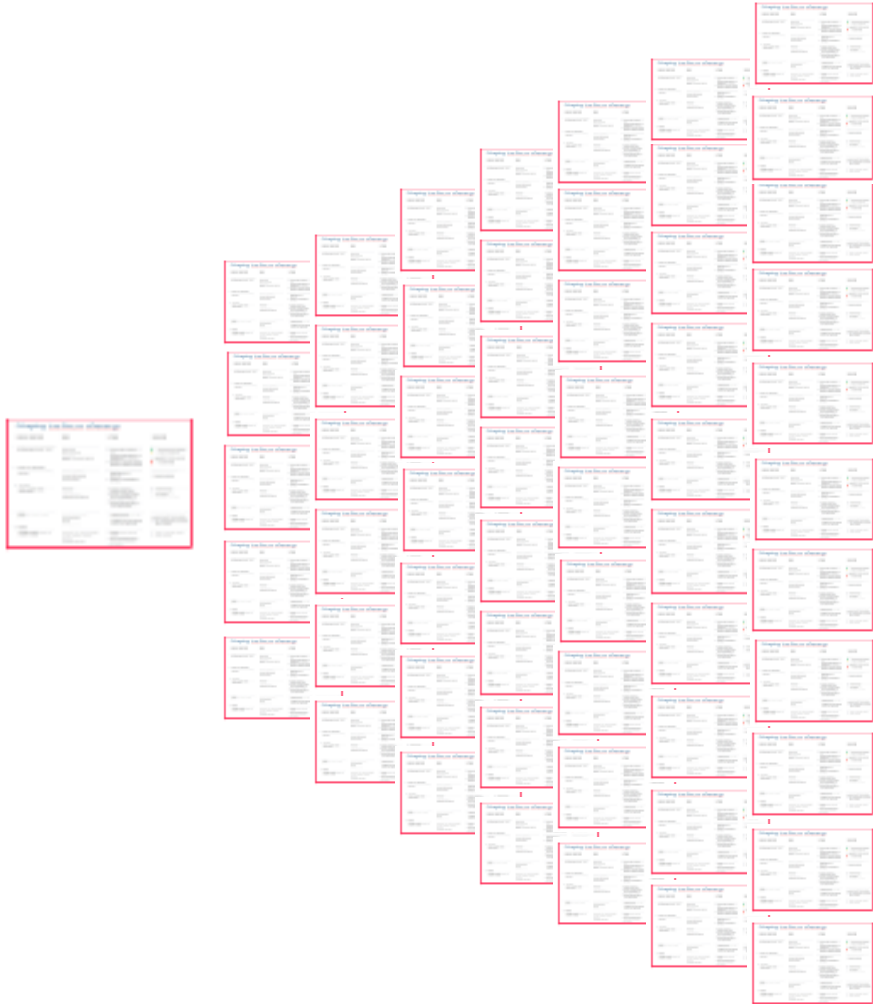
Production Efficiency

How do we measure progress?

29 Production Efficiency
29 CO2 Intensity, system intensity and fully

Relative Shareholder Return
Relative RoAOC

More than 600 Ambitions to Actions across the company



- **Alignment:** Through translation, not cascading
- **Rhythm:** - More business and event-driven than calendar-driven

A broader performance evaluation

- from narrow measurement to a holistic assessment

Ambition to Action

The image shows a screenshot of a document titled "Shaping the future of energy". The document is structured as a table with multiple columns and rows of text, likely representing a strategic plan or a set of objectives. The text is too small to read clearly, but the layout suggests a detailed report or strategy document.

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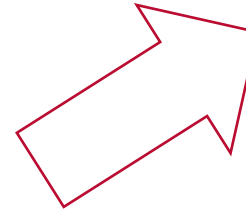
“Pressure testing” measured results:

- Deliver towards the strategic objectives?
- How ambitious targets?
- Changed assumptions, with positive or negative effect?
- Which risks were taken?
- Delivered results sustainable?

Living the values

- Day-to day-observations
- Global People Survey

Development
Rewards



Thank you
for listening!

Questions or comments - now or later?

Bjarte Bogsnes

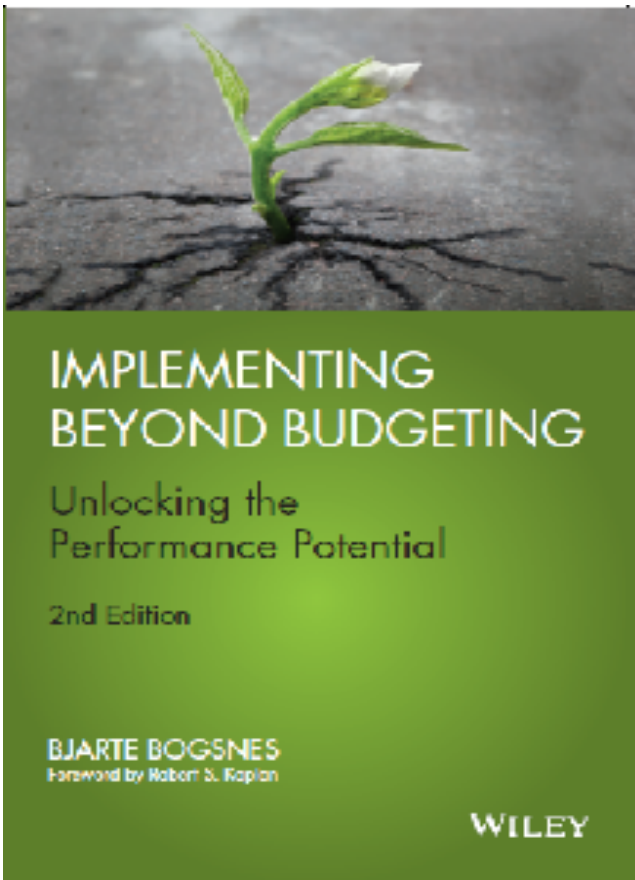
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Beyond Budgeting Round Table

www.bbrt.org



Want to hear more?

1. The problems with traditional management
2. The Beyond Budgeting model
Cases: Handelsbanken, Miles, Reitangruppen
3. The Borealis case
4. The Statoil case
5. Beyond Budgeting and Agile
6. Implementation advice

Wiley (US). Translated to Chinese, Japanese and Russian

"At last, Bjarte Bogsnes has made his experience and enthusiasm for Beyond Budgeting available for a wider audience with this remarkable book. I have appreciated his engagement in these important management issues for many years, and his knowledge and leadership has been critical in the transformation of our organization."

-Eldar Sætre, Former CEO & CFO Equinor